

the bottom line

Welcome to the Spring edition of "the bottom line" our taxation and accountancy information newsletter. This edition focuses on the recent budget.

Budget 2006

On 22 March, Gordon Brown delivered what may well be his last budget. Headline rates of income tax, corporation tax and VAT have all remained at existing levels. His hour long speech did not contain any surprises with most tax thresholds increased in line with inflation. As ever there was a further raft of anti-avoidance measures and a widening of the disclosure regime for tax avoidance schemes. The shocks were in the detailed press releases with unexpected changes to the inheritance tax treatment of Accumulation and Maintenance (A&M) and Interest in Possession (IIP) trusts. The main highlights of the budget include the following:

Business Measures Capital Allowances

- First year allowances for capital expenditure on plant and machinery for small businesses have been increased from 40% to 50% for one year only. This will apply to expenditure incurred on or after 1 April 2006 for companies and on or after 6 April 2006 for unincorporated businesses.

Corporation Tax Rates

- Corporation tax rates have been maintained at 19% where the Small Companies

Rate applies and 30% for the main rate. As was announced in the pre budget report, the starting rate of 10% for companies with profits below £10,000 has been abolished. The anti avoidance legislation that applied rates of 19% to distributed profits for small incorporated businesses is also abolished from 1 April 2006.

Research and Development and Vaccine Research Relief

- Changes are being made to the rules governing R & D tax relief and vaccine research relief. The time limits for claims for enhanced relief is being reduced to the first anniversary of the filing date of the tax return. This will apply for accounting periods ending on or after 31 March 2006. Transitional rules will apply for accounting periods ending before this date. The repayable tax credit which can be available to small and medium sized companies is to be extended to firms with between 250 and 500 employees. Vaccine research relief is extended to include payments made to clinical trial volunteers for taking part in the trials.

Leased Plant and Machinery

- New legislation is being introduced to align the tax treatment of leased plant and machinery with that of other plant and machinery.

UK Real Estate Investment Trusts (UK-REIT's)

- Companies or groups that meet the necessary conditions of UK-REIT's, will be able to elect for special rules to apply to their property businesses and to their distributions. Their qualifying rental income and gains on disposals of investment properties will be exempt from corporation tax. Dividends paid out by a UK-REIT from such income will be treated as UK property income in the hands of the recipient and will be subject



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to deduction at source of 22% income tax. Dividends paid out of other profits will be treated as normal distributions. The conditions that must be met to fall within the UK-REIT regime, which will commence on 1 January 2007, are:

- The company must be UK resident;
- UK shares must be listed on a recognised stock exchange;
- No single investor can be beneficially entitled to 10% or more of the distributions or control 10% or more of the capital or voting rights;
- 75% or more of the assets must be investment property;
- 75% of more of the income must be rental income;
- The ratio of interest on loans that fund the tax exempt business to rental income must be less than 1.25:1.
- Companies wishing to become UK-REIT's will have to pay an entry charge equivalent to 2% of the market value of the existing portfolio of investment properties although this can be spread over 4 years.

Group Relief

- From 1 April 2006 UK companies will be able to claim tax losses from fellow subsidiaries that are not resident in the UK, but which are either resident or have a permanent establishment in the European Economic Area and whose tax losses cannot be relieved elsewhere. All possibilities of relief elsewhere must have been exhausted and future relief must be unavailable.

Venture Capital Schemes

- Significant changes have been made to the Enterprise Investment Scheme (EIS) and the Venture Capital Trust Scheme (VCT) which take effect from 6 April 2006. For EIS investors, the annual investment limit for income tax purposes is doubled to £400,000. The maximum carryback of the investment made in the first six months of a tax year will double to £50,000. Income tax relief remains at 20%.
- Investors in VCTs will now attract reduced income tax relief of 30% and the minimum holding period has risen to five years.
- The size of companies that can raise monies under these schemes is significantly reduced. Previously relevant assets could be up to £15 million before the investment and £16 million thereafter. These limits will now be £7million and £8million respectively.

Personal Income Tax Measures Personal Allowances and Tax Rates

- Personal allowances have been increased in line with inflation. Tax rates have been maintained. Full details of allowances and rates for 2006/07 can be found on our tax cards which you should already have received.

Computers and Mobile Phones

- Employees with the private use of a computer provided by their employers have been exempt from tax on the first £500 of annual benefit in kind. This exemption has been withdrawn from 6 April 2006. In addition the exemption on the private use

of employer-provided mobile phones will be restricted with effect from 6 April 2006 to cover one phone per employee.

Company Car and Fuel Benefit Tax

- From 2008/09 a new lower rate of charge to tax based on the list price of a car will be introduced for vehicles with CO2 emissions of 120g/km or less. The company car fuel benefit multiplier is unchanged at £14,400.

Pensions – 'A' Day – 6 April 2006

- The new pensions regime is now with us. In brief:
 - All individuals up to age 75 can invest up to £3,600 per annum regardless of income;
 - The maximum that can be invested is the lower of 100% of net relevant earnings and the annual allowance of £215,000 for 2006/07 rising by £10,000 per annum until 2010/11;
 - Employers may be able to contribute more than employees into a scheme;
 - All pension contributions paid by taxpayers are paid net of basic rate tax;
 - There is no provision to carry back premiums or to carry forward unused relief;
 - The lifetime allowance is £1.5m rising to £1.8m by 2010/11;
 - Rules were available to elect for enhanced protection of excess funds.
 - The ability for pension scheme members to take a tax free lump sum from a pension fund and reinvest it back into the pension scheme has been restricted.

Capital Taxes

Capital Gains Tax Rates

- The annual exemption for 2006/07 has been increased to £8,800 for individuals and £4,400 for the majority of trusts. The amount chargeable to capital gains tax is taxed at the top slice of income.

Capital Gains Tax: Bed and Breakfasting Rules

- From Budget Day the identification rules relating to individuals and trustees making acquisitions within 30 days after a disposal will not apply where at the date of acquisition the individual was neither resident nor ordinarily resident in the UK or they are resident or ordinarily resident but non-resident under a Double Taxation Treaty. In these circumstances the shares disposed of are those acquired before the disposal rather than those acquired after.

Inheritance Tax Rates and Threshold

- The nil rate band for inheritance tax has been increased to £285,000 for 2006/07, with further increases to £300,000 for 2007/08, to £312,000 in 2008/09 and to £325,000 in 2009/10. Estates in excess of this threshold will continue

to be taxed at 40% on death and 20% on chargeable lifetime transfers.

Accumulation and Maintenance Trusts (A&M's) and Interest in Possession Trusts (IIP's)

- New rules which are effective from budget day bring A&M's and IIP's into the same regime as Discretionary Trusts. Previously A&M's and IIP's enjoyed favourable treatment for inheritance tax when compared with Discretionary Trusts.
- Apart from minor exceptions, any transfers into trust on or after 22 March 2006 will immediately be chargeable to IHT. They will also be subject to periodic charges (up to 6% every 10 years) and exit charges when assets leave the settlement.
- Transitional rules are introduced that allow changes to be made to existing A&M's before 6 April 2008 to bring settlements under the new rules. If existing settlements do not comply with the new rules by that date, they will come within the IHT regime above.
- As long as no new property is added to existing IIP's they will not be affected by the new regime. If the life interest ends or changes and the trust property remains in trust the new rules will apply.

Indirect Taxes

VAT Rates

- VAT Rates have been maintained with limits for registration and deregistration being increased by £1,000 to £61,000 and £59,000 respectively.

VAT Fuel Scale Charges

- These have increased with new scales being effective from the first accounting period beginning on or after 1 May 2006. Full details of the scales can be found on our tax tables.

VAT Partial Exemption

- Changes have been announced in respect of the application of VAT partial exemptions special methods.

Stamp Duty Land Tax (SDLT) Rates

- The rates for SDLT remain unchanged although the threshold for paying SDLT on residential property is increased from £120,000 to £125,000 from 23 March 2006.

Simplification

- A number of SDLT simplifications have been proposed with the effect that some transactions will fall outside the scope of the tax.

will need to be satisfied that there were unforeseen circumstances outside the control of the company and its auditors. The length of any extension will also be at the Registrar's discretion. Applications must be made before the normal filing deadline has expired.

to obtain an extension in exceptional circumstances. In order to obtain an extension, applications can be made to the Registrar of Companies under s244(s) of the Companies Act where 'special' reasons exist. Extensions are granted at the discretion of the Registrar of Companies, who

Changes to Anti-Money Laundering Law

A change in the law has been approved which gives equal treatment, as regards obligations to report money laundering, to external accountants, auditors and tax advisers where they provide services directly comparable to those provided by professional legal advisers. Before the change only lawyers had legal privilege and were not always required to report suspicions to NCIS whereas qualified accountants were.

Company Law Reform Bill

The above bill was published in November 2005 and is scheduled for implementation within 12 months. There are major reforms to the Companies Act in particular with regard to administration of private companies. Main changes include:

- Ability of private companies to not appoint a company secretary (all obligations of a company secretary remain)
- Reduction in filing date for private companies from 10 to 9 months (although the Revenue are pushing for a 7 month date and aiming to align filing dates at Companies House and H M Revenue & Customs)
- Abbreviated accounts to include a statement of turnover
- Abolition of authorised share

capital, the need for an AGM or the laying of accounts and a simplified Memorandum of Articles will be available to companies formed after the implementation of the Bill.

We will keep you informed about the implementation of this bill when further details are available.

Offshore Tax Affairs

You may be aware of a pilot exercise by HMRC to review offshore tax affairs of approximately 500 taxpayers. HMRC applied to the Special Commissioners to obtain access to bank held details of credit card customers with UK addresses whose cards are associated with offshore bank accounts. Of the 500 taxpayers reviewed, 19% made UK tax returns and only 18% of those who made returns and were UK resident declared any foreign income. HMRC estimated a tax yield of £1.4m. It was further estimated that if information were to be provided on 75,000 bank accounts the tax yield would increase to £347m. HMRC have been granted permission by the Special Commissioners for access to information from the offshore financial institution of names, addresses etc of customers having a UK address with a credit card who on the application form, gave details of a non UK bank account with which it was associated. If you

believe that you fall under the scope of the project outlined above, you need to review your offshore tax affairs urgently and we would be happy to advise you.

Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)

The new regulations come into force on 6 April 2006 and protect the employment rights of individuals on the transfer of a business. The new regulations have been extended to apply to most outsourcing situations, where services are outsourced or taken back in-house, or where one service provider is replaced by another. The new rules place an obligation on the outgoing employer to supply information before the transfer date about the transferring employees to the incoming employer. The regulations have not changed the position with regard to the employer's ability or lack of to harmonise terms and conditions of employment after a TUPE transfer. They continue to impose limitations on the ability of the new employer and the transferred employees to agree variations to terms and conditions of employment. Any change to an employee's terms and conditions has to be for an economic, technological or organisational reason.

NEWS IN BRIEF

Late delivery of accounts extensions

Automatic 3 month extensions to the period allowed for filing of accounts at Companies House where a company has overseas interests have been repealed. It may still be possible

Staff News

Morisha Christy, one of our partners, and Gabriel Nicolau, Nick's son, completed the London Marathon on 23 April 2006. Morisha is raising funds for the

Elimination of Leukaemia Fund, a small charity set up to raise funds for research into Leukaemia and also to provide much needed equipment for the relevant wards at Kings College Hospital.

Gabriel ran for Whizz Kidz. It is not too late to sponsor either Morisha or Gabriel and you can do so by visiting their websites at www.justgiving.com/Morisha or www.justgiving.com/Gabriel

Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services that we can offer, please contact Stephen Dabby, Morisha Christy, Tony Sian or Nick Nicolau.